



Director of  
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**EGYPT-PLO-ISRAEL: Mubarak's Meeting With Arafat**

*The meeting yesterday between President Mubarak and PLO chairman Arafat strengthened the political standing of both, but it is unlikely to lead to establishment of a PLO headquarters in Egypt.*

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Mubarak told US officials on Wednesday that he would urge Arafat to join Jordan's King Hussein in helping to carry out the US peace initiative. He also said he would not permit an expansion of the PLO presence in Egypt. Mubarak urged the US to begin a dialogue with Arafat.

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The Israeli Foreign Ministry denounced the meeting as "a heavy blow to the peace process." According to press reports, Tel Aviv plans to lodge an official protest with Cairo.

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**Comment:** Mubarak wants to help preserve Arafat's legitimacy in order to prevent the Palestinian resistance from falling completely under Syria's influence. An Egyptian-PLO reconciliation also improves Egypt's chances of resuming leadership of the Arab world.

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The meeting with Mubarak is a major step in Arafat's campaign to reaffirm his role as chief spokesman for the Palestinians. Arafat probably will visit other Arab leaders to improve his negotiating position before meeting with Hussein. He will lose the support, however, of those PLO leaders who are opposed to reconciliation with Egypt.

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The meeting almost certainly has heightened Tel Aviv's concern that Cairo is prepared to freeze ties with Israel for the sake of better relations with Arab states. Israel also is angry that Arafat may have recovered some of his lost prestige and credibility. Israeli officials do not believe that Arafat is ready to join Hussein in peace negotiations.

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**FRANCE-LEBANON: Possible Shifts in MNF Contingent**

*Paris may be considering reassigning some of its troops in Lebanon, but there is no evidence of any change in its commitment to the Multinational Force.* [ ]

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The US defense attache in Paris says France is considering withdrawing 480 men from its 2,000-man contingent and deploying them with UN forces in southern Lebanon. Press reports stated last week that military planners in Paris also have considered withdrawing French troops from isolated checkpoints and consolidating French positions to take advantage of naval support available to the Multinational Force. [ ]

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**Comment:** Paris continues to have important independent political ties to Lebanon. In contrast to the mood in Italy and the UK, there have been no widespread public demands in France for withdrawal from the Multinational Force. In light of continuing attacks on French troops, Paris may take steps to improve the security of its soldiers in Beirut. [ ]

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The eventual redeployment of some forces with the UN contingent would be consistent with French policy. Over the long term, Paris almost certainly wants UN forces to take over peacekeeping in Lebanon. In the short run, however, Paris is unlikely to reduce its Multinational Force contingent. [ ]

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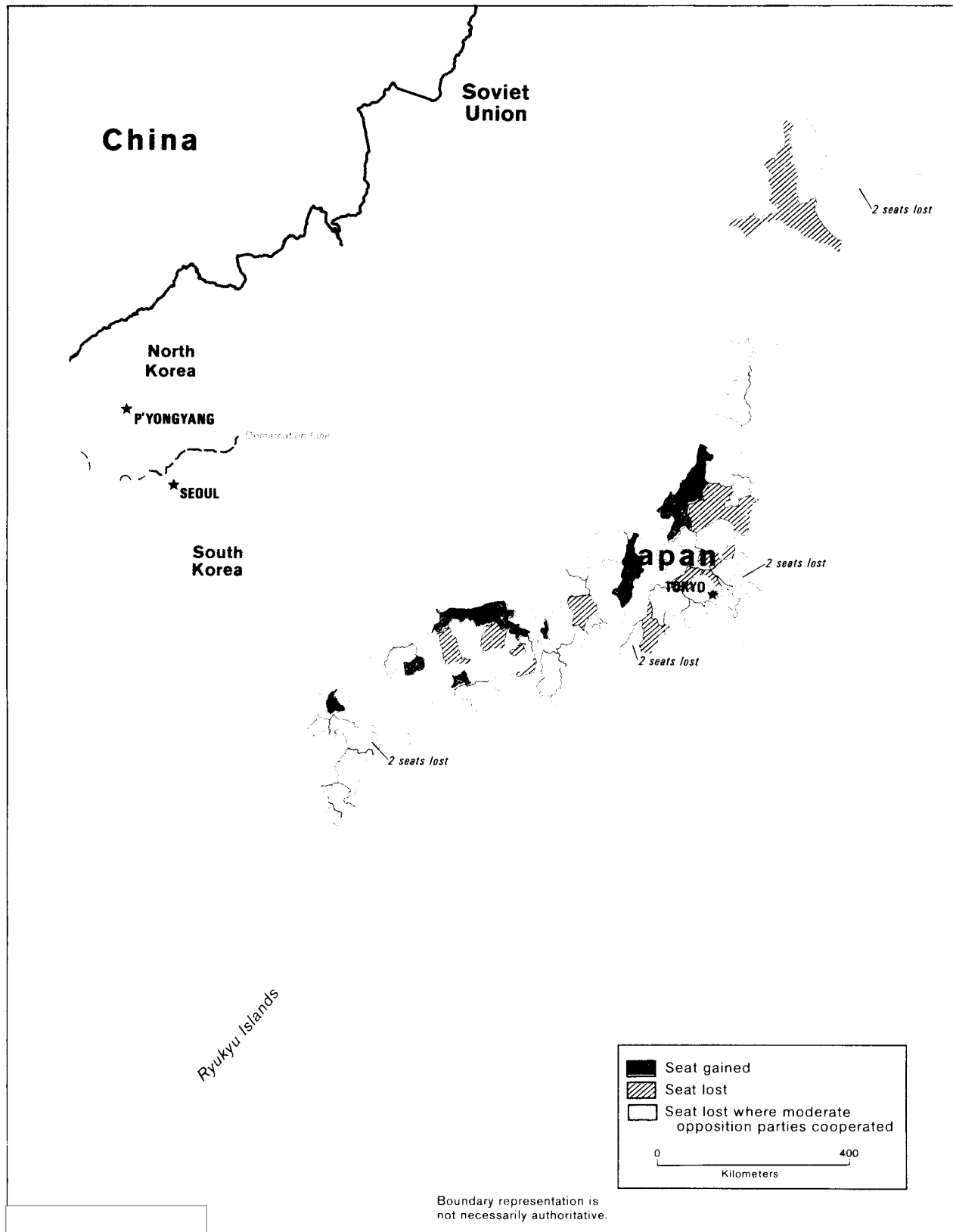
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### Results of Liberal Democratic Party in Lower House Election by District



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**JAPAN: Review of Election Results**

*Preliminary analysis of lower house election results indicates party organizational factors—and not international relations, trade, or security issues—caused the setbacks suffered by the ruling Liberal Democratic Party.* [ ]

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**Comment:** Overconfidence was a major factor in the losses suffered by Prime Minister Nakasone's party, which has had to recruit independents to form a working majority of 259 in the Diet. The party fielded an unusually large number of candidates nationwide, resulting in battles within the party in many districts. The continued role of former Prime Minister Tanaka in the organization also led many supporters to abstain or vote for the opposition in protest. [ ]

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In addition, members of the opposition reached agreements for electoral cooperation—56 of 69 jointly backed opposition candidates were elected. The Clean Government Party organized an effective campaign, electing all but one of its candidates. [ ]

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The Liberal Democrats' reduced majority imposes new constraints on the government. Nakasone's domestic programs have to be revised, starting with the budget, which should be approved in early January. Approval of the Defense Agency's request for a 6.9-percent increase in defense spending is not likely, in view of objections from the Finance Ministry and the opposition. [ ]

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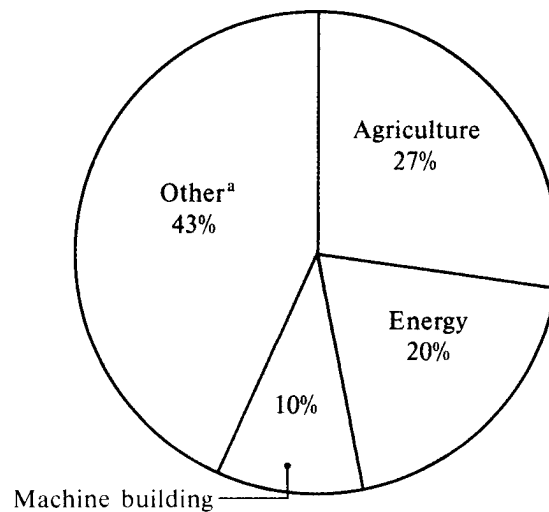
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**USSR: Capital Investment Shares,  
Current Five-Year Plan (1981-85)**

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<sup>a</sup> Includes transportation and communications, construction, and other branches of industry such as nonferrous metallurgy, ferrous metallurgy, chemicals, light industry, and food industry.

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**USSR: Investment Plans**

*A high-level economic planning administrator recently told visiting US officials that the 12th Five-Year Plan, now in preliminary draft, calls for a 10- to 12-percent increase in capital investment, about the same as in the current plan.* [ ]

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Energy, which will receive about 20 percent of investment in 1981-85, will get a growing share in 1986-90, increasing 1 percentage point a year. Agriculture's share will remain constant at 27 percent. Machine building and energy conservation programs also were mentioned as requiring substantial investment. [ ]

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The official expressed his personal view that a 15-percent increase in investment was justified by the urgent needs of the economy. He said, however, the investment increases are not to come at the expense of the consumer. A special long-term consumer goods program, similar to existing energy and food programs, is to be announced soon. [ ]

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**Comment:** The overall increase in investment is low by past Soviet standards. With the large shares of investment going to energy and agriculture, the increase apparently will be made at the expense of rail transportation, ferrous metallurgy, and other key sectors. [ ]

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Increased investment in machine building, in particular, is called for to modernize this industry if it is to produce the kinds of advanced machinery required throughout the Soviet economy. Machinery is especially needed for energy conservation programs and for the production of advanced military equipment. Prominent Soviet economists have been arguing for some time, apparently without success, for more investment in machinery, even if it has to come at the expense of other sectors of the economy. [ ]

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The Politburo recently approved the inclusion of the consumer goods program in the plan for 1986-90. Although the regime has promised improvements in the availability and quality of consumer products, there has been no evidence to date of an increased commitment of resources to consumer industries. [ ]

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**PHILIPPINES: Financial Crisis Deepening**

*Manila's rescheduling negotiations now seem likely to extend until at least the end of June, prolonging the country's economic difficulties through most of 1984 and presenting President Marcos with a severe political problem.* [ ]

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The US Embassy reports that the IMF believes its team in Manila will require most of January to resolve its differences with the government over the conditions of the proposed \$650 million standby loan. According to the Embassy, the delay probably will defer formal approval of the loan until at least late February. This also would cause postponement of the release of more than \$100 million in short-term loans from the US. [ ]

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Manila's committee of commercial creditors has postponed further meetings because of the other delays. It expects the government to declare another debt repayments moratorium before the current moratorium expires in mid-January. The committee now believes the rescheduling negotiations will drag on into June. [ ]

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In addition, the committee believes that much of Manila's financial data are fabricated. As a result, it also believes the IMF may demand the resignation of Central Bank Governor Laya before granting formal approval of the standby loan. The committee fears this may hold up the negotiations even longer. [ ]

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**Comment:** Private economists in the Philippines had predicted layoffs of 300,000 or more early next year as a result of expected shortages of imported raw materials and spare parts. Retrenchments through most of next year will exceed even these estimates because of the new delays. [ ]

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The economy almost certainly will become Marcos's most formidable political problem as National Assembly elections approach in May. The President, however, now has no apparent policy alternatives that would ease the effects of the financial crisis. His relations with organized labor and the business community are already tenuous, and large antigovernment demonstrations are likely in early 1984. [ ]

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**EL SALVADOR: Government Operation in the North**

The Army has launched a multibattalion operation against insurgent strongholds in northern Morazan and northeastern San Miguel Departments. The US defense attache reports that elements of the US-trained Arce immediate-reaction battalion were transported by helicopter to San Fernando. The Army states that several towns in the area already have been retaken. Guerrilla forces on Wednesday attacked Ciudad Barrios, but the Army has sent reinforcements and claims to have them surrounded. [ ]

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**Comment:** The offensive, which is led by one of the Army's most capable field commanders, probably is in reaction to the mauling of a government battalion last week at Cerro Cacahuatique. A military success north of the Torola River—a key insurgent base area—will help improve the Army's sagging morale. The guerrilla attack on Ciudad Barrios almost certainly was designed to relieve government pressure north of the Torola River. [ ]

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**EL SALVADOR: Crackdown on Death Squads**

Government efforts to discourage death squad activity evidently are having some effect. Police arrested an Army officer implicated in the murder of US labor officials in 1981, and they reportedly have warned civilians associated with death squads to leave the country or face arrest. According to a spokesman of the Catholic Church, the number of deaths attributed to the squads has decreased substantially over the past three weeks. He claimed only three such deaths were recorded last week. [ ]

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**Comment:** The reduction in activities of the death squads may be only temporary. The recent ratification of the new constitution with its controversial land reform articles may have removed the motive for some of the intimidation by the death squads. Once the election campaign begins in earnest, however, there is likely to be a resurgence of both leftist and rightist violence. [ ]

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**CENTRAL AMERICA: Contadora Meeting**

The Foreign Ministers of the Contadora group—Mexico, Venezuela, Colombia, and Panama—met in Panama this week to draft guidelines for specific actions to be taken by the Central Americans and called for a joint meeting with them from 7 to 9 January. Four of the Central American countries began meeting yesterday in Tegucigalpa to prepare a response to recent Nicaraguan peace proposals. Meanwhile, Argentina's new Foreign Minister told the press recently that he would visit the four Contadora countries early next year to discuss cooperation with their peace initiatives.

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**Comment:** The Contadora mediators have made only slow progress in implementing the 21-point document of objectives drafted in September. The Central Americans have allowed Nicaragua to maintain the diplomatic initiative through their failure to counter Sandinista proposals to translate the objectives into treaty commitments. Some Contadora nations might be amenable to adding Argentina to the group to spur progress, but they probably would not insist in the face of likely Central American objections.

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**SOUTH AFRICA-MOZAMBIQUE: Ministerial Discussions**

South African and Mozambican ministers, meeting in Swaziland on Tuesday, agreed to form four joint working committees. Three will deal with economic matters, and the fourth will be concerned with regional security issues. A South African official said that Pretoria firmly told the Mozambicans it would not tolerate the staging of military operations by the African National Congress out of Mozambique, and that the Mozambicans made "several important concessions" concerning the ANC. The working groups will hold their first meetings in the next few weeks. [ ]

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**Comment:** Despite Mozambique's apparent concessions on ANC activity, Pretoria is likely to remain skeptical that Maputo has the will or ability to control the insurgents. South Africa probably would be satisfied only by a verifiable demilitarization of ANC guerrillas in Mozambique. If the ANC continues its bombing campaign in South Africa, the South Africans presumably will be quick to attack ANC targets in Mozambique. [ ]

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**ZIMBABWE-US: Reaction to Reduction in Aid**

Harare's reaction to US plans to cut aid to Zimbabwe has been muted so far. Prime Minister Mugabe repeatedly has stated that he would risk a reduction rather than alter his foreign policies to please aid donors, despite warnings from some advisers that cuts would intensify the country's already critical foreign exchange position. Since Zimbabwe gained independence in 1980, the US has been its largest single donor, providing over \$234 million in economic assistance. [ ]

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**Comment:** Mugabe may yet react strongly to the cut. In the last week he has criticized the West's economic dominance of developing countries. Other recent public statements by Mugabe suggest he is determined to appeal to the left as he campaigns for support before a key party congress in May. [ ]

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**HUNGARY: Trial of Dissident**

Western press reports state that underground publisher Gabor Demsky was given a six-month suspended sentence on Wednesday, in the first trial in a decade of a dissident in Hungary. According to the US Embassy, the authorities only this month charged Demsky with assaulting two policemen. This nonpolitical infraction is based on an incident in September, when Demsky suffered a concussion as a result of a police beating. For the past year, the regime has been increasing its harassment of prominent dissidents. [ ]

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**Comment:** The 10-week delay in the decision to prosecute suggests disagreement in the leadership on how much to tighten policy on dissent. The government probably decided to demonstrate to Soviet critics and to domestic hardliners that it has its internal house in order. At the same time, by giving Demsky a mild sentence, the leadership hopes to reduce the damage to its liberal reputation in the West. Hungary's small and closely knit dissident community is unlikely to curtail its activities. [ ]

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## **Special Analysis**

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### **USSR: Andropov's Political Standing**

*The plenum of the Central Committee and the subsequent session of the Supreme Soviet next week will formally approve the economic plan and budget for 1984 and will provide an opportunity to assess General Secretary Andropov's political position after his prolonged absence. Most signs indicate Andropov will appear. Andropov needs to make a strong showing, and he could make personnel changes in the Politburo or Secretariat to increase his control. If he is unable to bring in additional supporters or remove some opponents, this would underscore the fact that he is only a transitional leader. Questions about the current degree of Andropov's authority also will arise if he does not deliver the Central Committee report or appear at the Supreme Soviet. In the foreign policy area, the two meetings probably will produce a reaffirmation of Soviet arms control positions.*

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Until Andropov went on his vacation in August, he had moved steadily but cautiously to consolidate his hold on power. He diluted the authority of his erstwhile rival, party secretary Chernenko, promoted several supporters, and removed several of Brezhnev's cronies from the Central Committee apparatus.

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This progress halted when Andropov left Moscow and subsequently became ill. During his absence, no major personnel changes have occurred.

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### **A Key Meeting**

It is crucial for Andropov to attend the plenum, in order to show that he is still in charge. The Politburo apparently delayed setting dates for the plenum and the Supreme Soviet until the last possible moment, presumably to be reasonably certain that Andropov could attend.

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Since early this month, diplomats have observed Andropov's motorcade. Other signs of his return to work include several personnel changes and renewed momentum in the discipline and anticorruption campaigns.

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The regime has given no forewarning that Andropov might not appear at the coming meetings—as it did before the anniversary celebration last month. The published summary of the Politburo session last week strongly hinted that the General Secretary attended and was involved in the discussion of the plan and budget.

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Nevertheless, some uncertainty persists about Andropov's condition. [ ]

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In addition, Andropov's meetings with foreign leaders have been scheduled only for after the New Year's holiday. [ ]

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If Andropov attends but is unable to give the Central Committee report or otherwise address the meeting, it would foster a view of him as a leader on the way out whose policy positions could be safely ignored. Moreover, his colleagues on the Politburo might make personnel changes at the plenum to pave a way for a new succession. [ ]

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A transfer of a full Politburo member—such as Defense Minister Ustinov or Ukrainian party boss Shcherbitskiy—to the Secretariat would indicate that preparations are being made to replace Andropov. There also is a remote chance that he might voluntarily step down as General Secretary, if he has had a heart attack or a stroke, or if he is suffering from a terminal disease. [ ]

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### **Making a Comeback**

In the last few weeks, Andropov and his supporters have regained some political momentum. The Central Committee's attack on the party organization in Moldavia, where Chernenko got his political start under Brezhnev in the early 1950s, may be an attempt by the General Secretary and his backers to go on the offensive. [ ]

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The party organization was rebuked for foot-dragging and a bureaucratic approach to solving economic problems. Andropov's followers earlier had made similar charges against Chernenko and another of Brezhnev's cronies, Premier Tikhonov. [ ]

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To retain the initiative, Andropov will have to take steps to consolidate his power. The easiest approach would be to advance supporters—such as candidate Politburo member Vorotnikov or party Control Commission chairman Solomentsev—to full Politburo membership and to appoint party secretary Ryzhkov a candidate member. [ ]

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Andropov also could add Party Organs Department chief Ligachev to the Secretariat. A more impressive—but less likely—show of strength would be the removal of Tikhonov or Chernenko. [ ]

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Failure to make any personnel changes could signify the existence of a political stalemate. A period of disarray and drift probably would ensue, as the Politburo focused on sorting out the leadership situation. [ ]

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### **Arms Control and Defense Spending**

The plenum and the Supreme Soviet session also may address arms control policy. The Politburo almost certainly will justify its handling of the INF talks. [ ]

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Andropov's Central Committee report, or a separate report by Foreign Minister Gromyko, could present a somber assessment of the international situation. A Soviet lecturer has suggested that these meetings also might be used to unveil new—but probably minor—INF countermeasures. [ ]

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In addition, the leadership might approve an increase in the publicly reported defense spending figure for 1984. Such an adjustment would be intended as a signal to the Soviet public and to the US that the USSR will continue to compete in the arms race. [ ]

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